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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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A Welcome Improvement . . .

Despite the lackluster outlook for capital spending, not all of the news from corporate America is bleak. Indeed, several signs suggest quite the opposite. Because the slide in corporate profits has ended and business capital spending has been slashed, corporate cash flow has begun to outpace business outlays. What is more, with excess funds now on hand, short-term corporate borrowing needs have softened substantially, easing pressures not only in the financial markets, but also on badly worn corporate balance sheets.

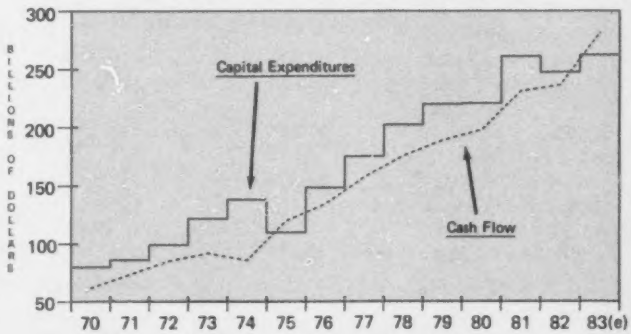
According to the Federal Reserve's Flow of Funds Accounts, business cash flow, consisting primarily of retained earnings plus depreciation, exceeded corporate capital outlays by a rate of almost $7 billion during the final three months of 1982—a massive $34 billion turnaround compared with the third quarter. This marked the first corporate surplus since fourth quarter 1975—and only the fourth time during any quarter since 1964 that cash flow has outstripped business outlays. To be sure, although the growth of corporate cash flow did begin to revive late last spring as the free-fall in corporate profits abated and the growth of depreciation allowances gained momentum, its rebound was subdued at best. By the end of last year, cash flow stood only two per cent above the low point reached during the first quarter of 1982.

. . . In Corporate Financial Health

With final sales soggy and lofty interest rates persisting, corporations slashed inventories at a huge $41 billion seasonally adjusted annual rate clip during 1982's final quarter. And because capacity utilization rates fell to postwar lows, new plant and equipment spending was trimmed by a $4½ billion annual rate, or two per cent, at the same time. Thus, with both inventories and plant and equipment spending pared, business outlays ran at a seasonally adjusted $231 billion annual rate during the October-December period, 14 per cent below the previous quarter's level. Within the space of three months, U.S. nonfinancial corporations had abruptly brought spending into alignment with cash flow.

Unless a sustained rebound in final sales develops, the pace of corporate capital spending will remain weak. Cash flow growth, in contrast, will continue to be bolstered by enhanced depreciation allowances, if nothing else. This suggests that internally-generated funds could exceed capital outlays for the full year 1983. If so, this would mark only the second time since 1964; the other year was 1975 (see chart).

NONFINANCIAL CORPORATIONS:
CAPITAL EXPENDITURES VS. INTERNAL FUNDS



Unequal Regional Recessions . . .

The Commerce Department's "flash" report that real GNP probably expanded at a four per cent seasonally adjusted annual rate in the first quarter confirms the belief that the long-awaited recovery is under way. The thing to remember, however, is that as recovery unfolds, its effects will not be shared equally by all regions. The 1981-82 recession's impact varied widely from region to region. In some parts of the country, the regional slump preceded the national decline, while in other areas, local economies succumbed to the national downturn much later.

The nation's industrial heartland and the Pacific Northwest, for example, both suffered a severe blow from the recession on top of long structural declines. On the other hand, both New England and the Middle Atlantic regions, in sharp contrast to their 1973-75 experiences, weathered the latest downturn better than the nation as a whole. This

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was because of shifts in their manufacturing bases from such mature industries as textiles and apparel, toward defense, electronics and telecommunications.

. . . Mean Unequal Regional Recoveries

Most regions, however, face a long and hard road back from recession. The major roadblock in many parts of the country is high unemployment. Jobless rates are currently at or above the national average in 19 states. West Virginia leads the list with a record 20.4 per cent unemployment rate in January, trailed by Michigan (17.0 per cent) and Alabama (16.6 per cent). Job losses in manufacturing industries contributed to the high unemployment rates in Alabama and Michigan, while a steep reduction in coal mining employment was the principal factor in West Virginia. And, as a result of cutbacks in steel output earlier this year, two areas in Pennsylvania—Johnstown and Sharon—posted jobless rates of 24.8 per cent, and 23.9 per cent, respectively—the nation's highest.

Recent economic developments have brought hope to many parts of the country that growth will revive. States dependent on motor vehicle production, as well as the steel and lumber industries will be among the first to feel the improvement. Domestic new-car assemblies rose to a seasonally

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/16/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	144.064	+ .820	+ 9.962
Loans to Depository Inst.	.894	+ .266	− .568
Float	1.748	− .565	− .440
Total Reserve Bank Credit	155.556	+ .692	+ 8.741
Treasury Deposits with Federal Reserve Banks	3.690	− .019	+ .616
Currency Outside Banks	137.057	+ .352	+10.645
Member Bank Reserves:			
Required	37.384	+ .547	− 1.553
Excess (Deficiency)	.282	− .229	− .055
Total Reserves Held	37.666	+ .318	− 1.608
Net Borrowed Reserves	.242	+ .466	− .395
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.596	+ 2.671	+18.917

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/9/83)	497.8	+ 14.8‡	+ 10.0‡
M2 (February '83)	2,047.8	+ 21.1	+ 12.8
M3 (February '83)	2,428.1	+ 9.8	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 3/24/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.20%	8.20%	8.25%
* Federal Agencies	8.70	8.85	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	8.15	8.70	9.81
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.95	9.10	9.50

‡Finance Company Paper—Prime

5- 14 days	8.63%
15- 29 days	8.63
30- 59 days	8.63
60- 89 days	8.63
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances

Apr.	8.65%
May	8.65
Jun.	8.65
Jul.	8.65
Aug.	8.70
Sep.	8.60

‡Industrial Paper—Prime

30- 89 days	8.63%
90-120 days	8.63

†Federal Funds Effective Rate 8.85%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82 $ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82 $ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82 − 1.1	0.7	− 5.3
Change in Consumer Prices (new series)*	Feb '83n − 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83 1.2%	− 12.0%	1.2%
Civilian Employment (Thousands of Persons) †	Feb '83 99,063	99,103	99,695
Unemployment as % of Civilian Labor Force †	Feb '83 10.4%	10.4%	8.8%
Personal Income*	Feb '83 $ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100) †	Jan '83 146.3	141.2	135.1
Industrial Production Index (1967=100) †	Feb '83 137.3	136.9	142.9
Net Change in Consumer Installment Credit †	Jan '83 $ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83 −$ 2.96	−$ 3.20	−$ 4.36
Plant and Equipment Expenditures*	2nd Q'83 $302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83 1,756	1,707	911
New Construction Expenditures*	Jan '83 $ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83 $ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83 $ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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adjusted 6.3 million unit annual rate in February, up from 5.6 million units in January and 4.1 million units a year ago. Domestic raw-steel production, a downstream industry of auto production, has now risen for seven consecutive weeks, reaching its highest level in almost a year.

What is more, with housing starts in February reaching the highest level since September 1979, the demand for lumber has jumped. As a result, many sawmills that had been closed for months have begun humming again. Lumber production was 40 per cent above year-ago levels in the latest weekly reporting period.

Defense and high-technology industries in California, New England and the Southeast are benefiting from new orders for military and aerospace hard goods. The outlook for Florida has also brightened in recent months, as a combination of increased housing starts, defense orders and tourism is lifting the overall economy. On the other hand, it will take some time before the rebound will reach America's breadbasket states. And, the plunge in world oil prices, which will speed economic recovery in many parts of the country, will initially affect adversely such energy-producing states as Texas and Oklahoma.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/9/83)	108,477	– 2,839	–24,774
New York City (3/9/83)	29,541	– 1,291	– 3,215
Commercial Paper (3/9/83)	166,984	– 677	– 2,433*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/83)	216,504	– 1,784	+16,566
New York City (3/9/83)	59,496	– 685	+ 3,836

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/83)	503,113	– 4,689	+25,476
New York City (3/9/83)	116,661	– 3,418	+ 6,988

Financial Markets

	Thursday 3/24/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	– .05	– 4.68
180 Day Bills†	9.00	0.00	– 5.02
Longest Bills†	9.18	– .08	– 4.81
Recent Issues:			
9⅝s 3/31/85 (When Issued)	9.80	– .05	
10¼s 3/31/87 (When Issued)	10.18	NA	
10⅞s 2/15/93	10.55	– .05	
10⅜s 11/15/12	10.60	– .12	
Municipals:			
Bond Buyer–20 Bond Index*	9.15%	– .04	– 3.89
Blue List Total ($ Million)	$1,388	+$ 124	+ $ 542
30-Day Visible Supply ($ Million)	$4,780	+$1,250	+ $2,105
Total	$6,168	+$1,374	+ $2,647
Corporates:			
Moody's Aa Composite (3/23/83)	12.28%	– .07	– 2.96
30-Day Visible Supply ($ Million)	$1,057	–$ 140	– $2,043
Stocks:			
Dow-Jones Averages:			
Industrials	1,145.90	+ 28.16	+ 327.98
Transportation	519.70	+ 13.43	+ 187.38
Utilities	126.29	+ .04	+ 17.72
65 Stocks	453.72	+ 9.91	+ 132.06
Standard and Poor's 500 Stocks	153.37	+ 3.47	+ 41.43
N.Y.S.E. Composite Index	88.20	+ 1.83	+ 23.67
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,870	+14,160	+ 31,134

* 46% Taxable equivalent 16.94%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 3/24/83	Week Ago
Overnight	8.81%	8.50%
1 month	9.38	8.75
3 month	9.44	9.00
6 month	9.63	9.38
1 year	9.75	9.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.70%
Long Term (7 to 15 yrs.)	11.75	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/24/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02104	47.53
Canada	.8160	1.2255
Denmark	.1162	8.6050
France	.1383	7.2315
Germany	.4149	2.4100
Italy	.0006942	1440.50
Japan	.004221	236.93
Mexico	.006270	159.50
Netherlands	.3700	2.7025
Switzerland	.4836	2.0680
U.K.	1.4625	.6838

Manufacturers Hanover

announces
the relocation
of its world
headquarters
from
350 Park Avenue
to
270 Park Avenue
New York, N.Y.